

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS
JUNE 30, 2008**

VERNON WATERWORKS SPECIAL SERVICE DISTRICT
TABLE OF CONTENTS
JUNE 30, 2008

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities	10
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	11
Reconciliation of Statement of Revenues, Expenditures And Changes in fund Balances of Governmental Funds To the Statement of Activities	12
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	13
NOTES TO THE FINANCIAL STATEMENTS	14-20



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INDEPENDENT AUDITORS' REPORT

Vernon Waterworks Special Service Fire District
P.O. Box 51
Delta, UT 84080

I have audited the accompanying financial statements of the governmental activities of Vernon Waterworks Special Service District (herein referred to as the "District"), as of and for the 18-month period ended June 30, 2008, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the District, as of June 30, 2008, and the results of its operations for the 18-month period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 2, 2009, on my consideration of District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis and Budgetary Comparison information on pages 3 through 6 and page 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.



Todd E. Holt, CPA

February 2, 2009

MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the Vernon Waterworks Special Service District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the 18-month period ended June 30, 2008.

Financial Highlights

- The revenues of the District increased by \$ 449,985 over the previous year. This increase is due to major funding from the State in the form of a large grant received for a water project. This increase is also explained by the fact the prior period was only a 12 month period and the current period for these financial statements was an 18 month period.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activities of the District are to provide water utilities and maintain the water system for the citizens of area.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local government units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the 18-month period. Such information may be useful in evaluation of a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$ 626,942 at the close of the most recent fiscal year. As the District uses all capital assets purchased to provide services to citizens; consequently, these are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District had one outstanding note payable of \$663,000 to the State of Utah for the water project as of June 30, 2008.

**District's Net Assets
June 30, 2008**

	<u>2006</u>	<u>2008</u>
Current Assets	\$ 89,431	\$ 137,610
Capital Assets (net)	<u>121,821</u>	<u>1,152,332</u>
 Total Assets	 <u>211,252</u>	 <u>1,289,942</u>
 Liabilities	 <u>-</u>	 <u>663,000</u>
 Total Liabilities	 <u>-</u>	 <u>663,000</u>
 Net Assets		
Invested in Capital Assets, of related debt	190,081	1,152,332
Unrestricted (deficit)	<u>-</u>	<u>(525,390)</u>
 Total Net Assets	 <u>\$ 190,081</u>	 <u>\$ 626,942</u>

At the end of the current fiscal period, the District is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year as well.

Governmental Activities

Total expenses decreased from the prior year due to a decrease in total revenues received.

District's Change in Net Assets

	<u>2006</u>	<u>2008</u>
General Revenues		
Water Revenue	\$ 26,789	\$ 60,236
Interest Income	643	26,181
Grant Income	<u>-</u>	<u>391,000</u>
 Total General Revenues	 <u>27,433</u>	 <u>477,418</u>
 General Expenses		
General Government	<u>18,412</u>	<u>40,557</u>
 Total General Expenses	 <u>18,412</u>	 <u>40,557</u>
 Changes in New Assets	 9,021	 436,861
 Net Assets Beginning of Year	 <u>181,060</u>	 <u>190,081</u>
 Net Assets End of Year	 <u>\$ 190,081</u>	 <u>\$ 626,942</u>

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal period.

At the end of the current fiscal period, the District's reported ending fund balance of \$ 157,893. Of this total amount, \$ 137,610 constitutes unreserved fund balance, which is available for spending at the District's discretion.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vernon Waterworks Special Service District, P.O. Box 51, Vernon, Utah 84080.

VERNON WATERWORKS SPECIAL SERVICE DISTRICT

Statement of Net Assets

June 30, 2008

	<u>Primary Government Governmental Activities</u>
Assets	
Checking	\$ 42,464
Savings	33,178
Utah PTIF # 6732	61,968
Capital Assets	
Land and Buildings	20,283
Equipment and Vehicles	1,146,168
Accumulated Depreciation	<u>(14,119)</u>
Total Assets	<u>1,289,942</u>
Liabilities	
Long-Term Liabilities (Water Loan)	
Due Within One Year	23,000
Due In More Than One Year	<u>640,000</u>
Total Liabilities	<u>663,000</u>
Net Assets	
Investment in Capital Assets, net of Related Debt	1,152,332
Unrestricted	<u>(525,390)</u>
Total Net Assets	<u>\$ 626,942</u>

The Notes to the Financial Statements are an Integral Part of the Statement.

VERNON WATERWORKS SPECIAL SERVICE DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

			Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government Governmental Activities
	Expenses	Charges for Services			
Primary Government					
Governmental Activities:					
General Government	\$ 27,819	\$ -	\$ 391,000	\$ -	\$ 363,181
Public Safety	12,738	-	-	-	(12,738)
Total Primary Government	\$ 40,557	\$ -	\$ 391,000	\$ -	350,443
			General Revenues		
			Property Taxes		60,236
			Interest		26,181
			Other		-
			Total General Revenues and Transfers		86,418
			Change in Net Assets		436,861
			Net Assets Beginning of Year		190,081
			Net Assets End of Year		\$ 626,942

The Notes to the Financial Statements are an Integral Part of this Statement.

VERNON WATERWORKS SPECIAL SERVICE DISTRICT

Balance Sheet

Governmental Funds

June 30, 2008

	General	Total Governmental Funds
Assets		
Checking	\$ 42,464	\$ 42,464
Savings	33,178	33,178
Utah PTIF # 6732	61,968	61,968
Total Assets	<u>\$ 137,610</u>	<u>\$ 137,610</u>
Liabilities		
Water Loan	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>
Fund Balances		
Unreserved:	<u>137,610</u>	<u>137,610</u>
Total Fund Balances	<u>137,610</u>	<u>137,610</u>
Total Liabilities and Fund Balances	<u>\$ 137,610</u>	<u>\$ 137,610</u>

The Notes to the Financial Statements are an Integral part of this Statement.

VERNON WATERWORKS SPECIAL SERVICE DISTRICT
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2008

Total Governmental Funds Balances	\$ 137,610
Amounts reported for governmental activities in the statement of net assets are different because	
Long-Term Liabilities are not reported in the Balance Sheet.	(663,000)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	<u>1,152,332</u>
Net Assets of Governmental Activities	<u><u>\$ 626,942</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

VERNON WATERWORKS SPECIAL SERVICE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	General	Total Governmental Funds
Revenues		
Water Revenue	\$ 60,236	\$ 60,236
Grant Income	391,000	391,000
Interest	26,181	26,181
Other	-	-
Total Revenues	<u>477,418</u>	<u>477,418</u>
Expenditures		
General Government	27,819	27,819
Repairs/Maintenance	-	-
Debt Service:		
Principal Retirement	23,000	23,000
Capital Outlay	<u>1,044,136</u>	<u>1,044,136</u>
Total Expenditures	<u>1,094,955</u>	<u>1,094,955</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(617,538)	(617,538)
Other Financing Sources (Uses)		
Transfers In	686,000	686,000
Transfers Out	-	-
Total Other Financing Sources (Uses)	<u>686,000</u>	<u>686,000</u>
Net Change in Fund Balances	68,462	68,462
Fund Balances (Deficits) Beginning of Year	<u>69,148</u>	<u>69,148</u>
Fund Balances (Deficits) End of Year	<u><u>\$ 137,610</u></u>	<u><u>\$ 137,610</u></u>

The Notes to the Financial Statement are an Integral Part of this Statement.

VERNON WATERWORKS SPECIAL SERVICE DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds		\$ 68,462
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Expenditures for Capital Assets	1,044,136	
Less Current Year Depreciation	<u>(12,738)</u>	1,031,398
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		23,000
The Waterworks received financing in the form of a loan from the State of Utah in order to cover the costs of the water project.		<u>(686,000)</u>
Change in Net Assets of Governmental Activities		<u>\$ 436,861</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

VERNON WATERWORKS SPECIAL SERVICE DISTRICT
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Water Revenue	\$ 28,000	\$ 28,000	\$ 60,236	\$ 32,236
Grant Income	1,200,000	1,200,000	391,000	(809,000)
Interest	650	650	26,181	25,531
Other	-	-	-	-
Total Revenues	<u>1,228,650</u>	<u>1,228,650</u>	<u>477,418</u>	<u>(751,232)</u>
Expenditures				
General Government	23,000	23,000	27,819	(4,819)
Repairs/Maintenance	30,000	30,000	-	30,000
Debt Service:				
Principal Retirement	-	-	23,000	(23,000)
Capital Outlay	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,044,136</u>	<u>155,864</u>
Total General Government	<u>1,253,000</u>	<u>1,253,000</u>	<u>1,094,955</u>	<u>158,045</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,350)	(24,350)	(617,538)	(593,188)
Other Financing Sources (Uses)				
Transfers In			-	-
Transfers Out			686,000	(686,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>686,000</u>	<u>(686,000)</u>
Net Change in Fund Balances	(24,350)	(24,350)	68,462	(1,279,188)
Fund Balance Beginning of Year	<u>69,148</u>	<u>69,148</u>	<u>69,148</u>	<u>-</u>
Fund Balance End of Year	<u>\$ 44,798</u>	<u>\$ 44,798</u>	<u>\$ 137,610</u>	<u>\$ (1,279,188)</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE 18-MONTH ENDED JUNE 30, 2008**

INDEX

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
A.	Financial Reporting Entity
B.	Basis of Presentation
C.	Measurement Focus and Basis of Accounting
D.	Assets, Liabilities, and Equity
E.	Revenues, Expenditures, and Expenses
NOTE 2.	STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY
A.	Budgetary Basis of Accounting
NOTE 3.	DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS
A.	Cash and Investments
NOTE 4.	CHANGES IN LONG-TERM DEBT

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE 18-MONTH ENDED JUNE 30, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2008, the District implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

1.A. FINANCIAL REPORTING ENTITY

The District was created on September 15, 2005, by agreement of the Vernon Waterworks Company and the Town of Vernon to provide water and other future services to its area. The District is a political subdivision and operates as an independent Special Service District to the extent allowed by Utah Law.

The District follows the definition criteria of GASB to establish its reporting entity. Oversight responsibility is the primary criteria used. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

There are no component units included in this report.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District has no business-type activities.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories:

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE 18-MONTH ENDED JUNE 30, 2008**

governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Major and Nonmajor Funds

The funds are further classified as major or non-major as follows:

	<u>Fund</u>	<u>Brief Description</u>
Major:		
General		See above for description.
Nonmajor:		
None		

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE 18-MONTH ENDED JUNE 30, 2008**

their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "Cash and Cash Equivalents" includes all demand, savings accounts, and certificates of deposits of the District.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 3.A.

The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of District funds in a "qualified depository." A "qualified depository" is defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE 18-MONTH ENDED JUNE 30, 2008**

by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Utah Money Management Act also defines the types of securities allowed as appropriate temporary investments for the District and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Fixed Assets

The District purchases equipment as needed to efficiently operate the water system for the area. The District on occasion upgrades parts of the system to ensure the final product will meet State guidelines.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE 18-MONTH ENDED JUNE 30, 2008**

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the District is subject to various state, and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows.

2.A. BUDGETARY BASIS OF ACCOUNTING

Budgetary procedures for the District have been established by Utah State. The basis of accounting applied to the budget is the same basis as the related financial statements.

Annual budgets are prepared and adopted in accordance with State law by the Board on or before June 30 for the following fiscal year beginning July 1. Budgets may be increased by resolution of the Board at any time during the year, provided a public hearing has been held regarding any proposed increase.

Under Utah Code, the District's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the code for certain events.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH AND INVESTMENTS

Deposits

The District's policies regarding deposits of cash are discussed in Note 1.D. At June 30, 2008, the carrying amount of the District's deposits was \$137,610, and the bank balance was \$75,642. The entire bank balance is covered by the \$100,000 limit of federal depository insurance. Deposits are not collateralized nor are they required to be by state statute

Investments

The District's policies and applicable laws regarding investments is discussed in Note 1.D. The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the District based upon whether the investments are insured or registered and upon who holds the security at June 30, 2008. The categories of credit risk are defined as follows:

Category 1—Insured or registered with securities held by the entity or its agent in the entity's name

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE 18-MONTH ENDED JUNE 30, 2008**

Category 2—Uninsured and unregistered with securities held by counterparty's trust department or agent in the entity's name

Category 3—Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the District's name

The District currently has no investments that are required to be categorized.

The District has investments with the Utah Public Treasurers' Investment Fund (PTIF), which are not subject to categorization. The value of the investments at June 30, 2008, was \$61,968.

The PTIF is an external deposit and investment pool wherein governmental entities are able to pool the moneys from several entities to improve investment efficiency and yield. These moneys are invested primarily in money market securities and contain no withdrawal restrictions. As such, the moneys invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

NOTE 4. CHANGES IN LONG-TERM DEBT

The District incurred \$686,000 of debt due to the State of Utah for the water project. The District agreed to pay the State, interest free, in 30 annual payments of \$23,000. The payments began February 1, 2008 and end February 1, 2037.

Balance Jan. 1, 2008	Decreases	Balance Dec. 31, 2008
<u>\$ 686,000</u>	<u>\$ 23,000</u>	<u>\$ 663,000</u>

Future maturities of long-term debt are as follows:

<u>Due February 1st</u>	<u>Payment Due</u>
2009	\$ 23,000
2010	23,000
2011	23,000
2012	23,000
2013	23,000
2014-2018	115,000
2019-2037	433,000
Remaining Balance Due	<u>\$ 663,000</u>

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
INDEPENDENT AUDITORS' REPORT IN
ACCORDANCE WITH *GOVERNMENT*
AUDITING STANDARDS
STATE COMPLIANCE REPORT
MANAGEMENT LETTER
JUNE 30, 2008**

**VERNON WATERWORKS SPECIAL SERVICE DISTRICT
TABLE OF CONTENTS
JUNE 30, 2008**

	<u>Pages</u>
GOVERNMENT AUDITING STANDARDS REPORT:	
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting based on an Audit of General-Purpose Financial Statements Performed in Accordance with Government Auditing Standards	1-2
STATE COMPLIANCE REPORT:	
Independent Auditors' Report on State Legal Compliance	3-4
MANAGEMENT LETTER:	
Current Year Findings	5
Status of Prior Year Findings	6

GOVERNMENT AUDITING STANDARDS REPORT

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

February 2, 2009

Vernon Waterworks Special Service District
P.O. Box 51
Vernon, UT 84080

I have audited accompanying financial statements of the governmental activities of Vernon Waterworks Special Service District (herein referred to as the "District") as of and for the 18-month period ended June 30, 2008, and have issued my report thereon dated February 2, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I

do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the District Board of Directors and various state funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.



Todd E. Holt, CPA

STATE COMPLIANCE REPORT

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

February 2, 2009

Vernon Waterworks Special Service District
P.O. Box 51
Vernon, UT 84080

I have audited the accompanying financial statements of the governmental activities of Vernon Waterworks Special Service District as of and for the 18-month period ended June 30, 2008, and have issued my report thereon dated February 2, 2009. The District did not receive any non-major grant which is to be audited for specific compliance requirements: (However, this program was subject to test work as part of the audit of the Districts financial statements.

My audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah's Legal Compliance Audit Guide, including the following:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues

The District did receive a major State grants during the 18-month period ended June 30, 2008.

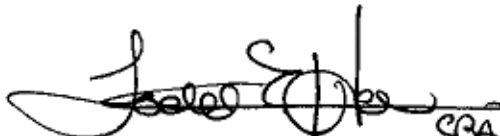
The management of Vernon Waterworks Special Service District is responsible for the District's compliance with all requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards

require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed no instances of noncompliance with requirements referred to above.

In my opinion, Vernon Waterworks Special Service District complied, in all material respects, with the general compliance requirements identified above for the 18-month period ended June 30, 2008.



Todd E. Holt, CPA

CURRENT YEAR FINDINGS

FINDING

The Utah State law, 51-2a-202, states that, "the governing board of each entity required to have an audit, review, compilation, or fiscal report shall ensure that the audit, review, compilation, or fiscal report is (a) made at least annually; and (b) filed with the state auditor within six months of the close of the fiscal year of the entity."

RECOMMENDATION

The District's future audits should be filed with the state auditor on a timely basis, within six months of the close of the fiscal year.

STATUS

The District plans to take the necessary steps to ensure that the reports are filed in a timely manner.

PRIOR YEAR FINDINGS

No prior year findings.